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SUBJECT: ERWIN EMPHASIZES SOE ROLE IN ACHIEVING 6% GROWTH

REF: PRETORIA 2161

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1. (SBU) Summary. During a September 28th American Chamber of Commerce luncheon address, Minister of the Department of Public Enterprises Alec Erwin focused on the state-owned enterprises' (SOE) role in boosting the GDP growth rate to 6% and the SAG's rationale for not privatizing large SOEs. The SAG's desire to control the SOE's agenda was the primary reason to forego privatization, as private owners would have little incentive to address South Africa's development priorities. While SOEs are working to improve their efficiency, they already have access to low-cost capital markets to finance their infrastructure projects thanks to South Africa's fiscal policies. He expects the SOEs to serve a vital role in improving infrastructure, adding employment, offering skills development, and providing new technology so that 6% long-term economic growth is possible. Erwin also mentioned the SOE's importance in implementing Black Economic Empowerment (BEE) policies. End Summary.

To Privatize or Not

2. (SBU) At a September 28th American Chamber of Commerce luncheon, Minister of Public Enterprises Alec Erwin spoke on "State-Owned Enterprises - Dealing With Infrastructure Bottlenecks." Erwin reviewed the South African Government's (SAG) infrastructure investment plans detailed in reftel, but also elaborated on certain areas such as privatization. He acknowledged calls for privatizing large state-owned enterprises (SOEs), however, argued that selling South Africa's large SOEs would not serve its best long-term development goals. Only large corporations would be able to afford the purchase of a Transnet or Eskom, and if they were sold in portions to multiple shareholders, the new private owners would have little incentive to coordinate projects with South African development goals. As a result, the SAG has decided to hold on to core assets and drive their agenda in line with its priorities. South African Airways will remain government-owned, although separate from Transnet, primarily because of the "volatile nature of the airline industry." Erwin also noted that Johannesburg airport was building a new international terminal, King Shaka airport in Durban would be built sooner rather than later, and additional airport infrastructure plans would be announced early next year.

3. (U) Further supporting the SAG-driven infrastructure investment is that SOE projects are financed through capital markets and retained earnings, using none of the SAG's budget. The SOEs already have low-cost access to capital markets, primarily due to the success of South African fiscal policies over the last 10 years. South Africa's recent upgrade in credit ratings will assist in accessing capital at lower costs and will allow the SAG's funding to focus on socio-economic programs. Erwin also viewed efficiency as being paramount to the SOEs accessing affordable capital. He asserted that Eskom already benefits as an efficient producer of electricity, and that Transnet is reorganizing in order to improve its efficiency. Transnet is currently in the process of selling about 20 non-core companies and should complete this process in 18 months. Total sale of SOE non-core assets should be about R7 to R8 billion (\$1.1 to 1.3 billion).

SOE's Role in Fostering South African Objectives

4. (U) Erwin emphasized the SOE's role in fostering new technology, creating jobs, training the workforce, improving transportation infrastructure, and implementing Black Economic Empowerment (BEE) objectives. He viewed Eskom as the anchor for SOEs, since it already accesses capital markets efficiently, is addressing improved training by fostering mentoring groups that are managing the construction of new power generators, and is providing

new Pebble Bed Modular Reactor (PBMR) technology to the international market. The last power station built in South Africa was finished in the mid-80s, with many of its engineers since moved abroad or retired. The SAG sought out those engineers and brought them back to lead mentoring teams that match young graduates with more experienced engineers. As a result of the success of these teams, Erwin expressed the view that the skills shortage was not as big a problem as he thought it was going to be eight months ago.

15. (U) He also viewed SOEs as being crucial in developing BEE and small business development, acknowledging the difficulty of meeting BEE goals in capital-intensive sectors. He viewed the major challenge as designing a tender and procurement process that would allow small business and BEE firms to participate, without sacrificing efficiency and competitive pricing.

16. (U) SOE's increased spending on infrastructure will jumpstart South African economic growth plans to significantly cut unemployment and reach 6% long-run growth, according to Erwin. Each meeting of the SAG's core team for economic growth (including the Ministers of the Department of Trade and Industry, Finance, Public Enterprises, and the Deputy President) discusses policies to shift growth and infrastructure improvement as recurring themes. Erwin views this era in South Africa as "very exciting" and an opportunity to enjoy the fruits of 10 years' labor in correcting South Africa's fiscal and monetary imbalances.

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